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H.R. 1562 - Katrina Housing Tax Relief Act of 2007

Floor Situation

H.R. 1562 is being considered on the floor under suspension of the rules and will require a two-thirds majority vote for passage. This legislation was introduced by Representative Charles Rangel (D-NY) on March 19, 2007. The bill was ordered to be reported from the Committee on the Ways and Means, by voice vote, on March 21, 2007.

H.R. 1562 is expected to be considered on the floor on Tuesday, March 27, 2007.

Summary

H.R. 1562 amends portions of the Gulf Opportunity Zone Act of 2005 (H.R. 4440), which passed the House of Representatives by a recorded vote of 415 – 4 (Roll no. 618), on December 7, 2005. H.R. 4440 created several tax provisions to provide tax relief for the areas hit by Hurricanes Katrina, Wilma, and Rita, and to help rebuild the areas hit by Hurricane Katrina.

H.R. 4440 extended the Low-Income Housing Tax Credit (LIHTC) amount to the States of Alabama, Louisiana, and Mississippi through 2008, and each one of these states received the 2006 allocation of $1.90 per capita for each state.

H.R. 1562 extends the sunset of funds authorized for low-income housing projects from 2008 to 2010. Extending the sunset allows additional time for States to use the credits received from the tax breaks to develop low-income housing. If these credits are not used by 2008, the States may use them for LIHTC, but are not required to by federal law. The extension helps to alleviate any possibility that the funds are not used for their original purposes.

Specifically this bill addresses housing in the Gulf Opportunity zones (GOzones), which were defined as "that portion of the Hurricane Katrina disaster area determined by the President to warrant individual or individual and public assistance from the Federal Government under the Robert T. Stafford Disaster Relief and Emergency Assistance Act by reason of Hurricane Katrina".

The legislation waives the 10% underlying statute, which requires that all projects must be placed in service in the year the credits were allocated unless at least 10% of the credits given were used. H.R. 1562 waives this statute but keeps in place the December

31, 2010 placed-in-service date, which is the date when the building can be used or occupied.

H.R. 1562 also extends the bonus credits, which are credits that are available to projects within designated difficult to develop areas, or “DDA.” After Katrina, the Gulf Coast region struck by the hurricane was declared DDA and, therefore, eligible for the additional credits. The bill extends the bonus through the end of 2010.

H.R 1562 also expands a section of law allowing the proceeds of Mortgage Revenue Bonds to be used to refinance an existing mortgage. Currently the law applies only to older homes. This provision would expand it to include homes where repairs or reconstruction costs total at least 25% of the owner’s adjusted basis in the property.

Under current law, low-income housing projects, which receive certain federally-subsidized loans, must elect to either accept a lower credit rate or they must make an offsetting reduction in the property’s basis, which allows them to claim the higher credit rate but on a smaller basis.

For projects in the GOZone through 2010, H.R. 1562 allows low-income housing projects to receive additional categories of federally-subsidized loans without facing a reduction in tax credits.

The bill instructs the GAO to study the use of credits in the GOZone and report back to the House Committee on Ways and Means and the Senate Committee on Finance. If the study finds significant fraud, a hearing will be held within 60 days.

Background

On August 29, 2005, Hurricane Katrina struck the Gulf Coast and wreaked havoc on the area, most notably in the coastal regions of Mississippi and the City of New Orleans.

H.R. 1562 was introduced to ease the burdens on residents who lost their homes during Hurricane Katrina. Due to the difficulty in obtaining insurance, permits, equipment, labor and many other logistical issues, the concern arose that the credits would be lost. Current law states that if the credits are not used within their time window, they are given back to the state.

H.R. 4440 was the original bill that addressed the Hurricane Katrina disaster and was signed into law on December, 22, 2005 (PL109-135).

Cost

The Congressional Budget Office (CBO) has estimated H.R. 1562 will cost $237 million over 10 years. This cost would occur because the credits given would be used more quickly than originally thought.

In order to offset the costs under the PAYGO rules the bill will contain two provisions:

- The IRS, with limited exceptions, must provide taxpayers access to a collection due process (CDP) hearing before they seize taxpayers' property to satisfy unpaid tax liabilities. That CDP hearing is in addition to other notices and procedural rights provided by taxpayers. Under the provision in H.R. 1562 as amended, an additional exception to the general rule is created for employment tax liabilities, but only for taxpayers who have requested a CDP hearing within the prior two years. Thus, taxpayers who have not requested a CDP hearing over claims of unpaid employment taxes within the prior two years could ask for and receive a CDP hearing prior to the IRS levying assets to satisfy underpayment of employment taxes. The provision sunsets after February 29, 2016 and is estimated by the Joint Tax Committee to raise $241 million over ten years.

- The bill also changes the timing of estimated corporate tax payments. The amount of the payment by these businesses in the last quarter of FY 2012 is raised from 106.25% to 106.45%, with an offsetting reduction in the first quarter of FY 2013.

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